



The Business Value Manager

Advice for business owners, investors and service providers on how to build value and wealth through investment in closely held companies.

How to Best Achieve Your Goals: As a Stand Alone Company or Through a Combination

Regardless of short term economic conditions or market circumstances, companies in many industries continue to feel pressure to consolidate. The myriad of advantages created by size pose a continual threat—as well as a potential opportunity—for independent businesses. This edition of *The Business Value Manager* explores how to evaluate options to build your business: As a *Stand Alone* company or through a *Combination*.

CHANGE IS CONSTANT

Consolidation as a business trend is as relentless as the creative destruction of free enterprise. The constant movements of open markets toward competitive advantage and the efficiencies it creates continuously occur, and for every company in these markets, the changing conditions create advantages and disadvantages to be exploited. While some investors and their companies perceive their position as buyers looking for acquisition opportunities, other companies are more likely to be targets to be acquired. Change in business, particularly in a private company, is as difficult as a major change in other aspects of your life. To avoid the uncertainties of change, many owners cling to the past in the hope that market forces will skip by them. This “head in the sand” approach is an ineffective response based on fear that often yields bad results. Your solution lies in a

successful strategy that maximizes your returns, minimizes your risk and meets your non-financial goals, whether you are most likely to remain as a stand alone company or to become a buyer or a seller.

TRENDS IN MANY INDUSTRIES

The Past

To build a perspective, look at the history in your industry and the traditional business model that companies used to grow and prosper. In the past, many companies had exclusive territories and relied on personal relationships with customers. Typical companies were smaller and most competitors were local. Owners frequently had reasonably strong financial returns and a good lifestyle.

The Present

Increasing efficiencies have gradually changed this. The emergence of national chains in many industries, the movement of many products or services to commodity status, a sale process based more on price than personal relationships and competition through the internet or through companies located anywhere make business today much more challenging. These market improvements have made customers more demanding so successful companies must have deeper resources to meet

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their needs. Your primary resource is good people and smaller companies struggle to recruit and retain the necessary talent. Compared to the past, private company owners today work harder and longer, frequently for lower financial returns because of greater competition.

The Future

In many industries, the future structure will be fewer, bigger competitors as smaller, less effective operations are driven out. The survivors will be deeper, stronger companies that are right sized to compete effectively. Therefore, it is essential to determine the best fit for you and your company in this future market.

EVALUATE YOUR COMPANY'S CURRENT CIRCUMSTANCES

Is your company's competitive position improving or declining? To answer this, consider your range of product and service offerings versus your major competitors. Is it stronger or weaker? Also, consider your sales growth versus both your traditional competitors and the newest, fastest growing entrants into your market. Assess your relationship with your customers, what ties them to you and the likelihood that your relationship with them can be maintained or improved.

Next, look at your management team in terms of age, experience, expertise and growth potential. Do they provide adequate depth of leadership for your company, currently and into the future?

Finally, look at your alternatives to exit your investment in your business. Who are the likely buyers of your company, and do they give you a realistic opportunity to successfully liquidate your investment at an acceptable price and terms and within a time frame that fits your preferences? Would you most likely be able to attract several interested buyers to create a bidding process that increases your company's price?

EVALUATE YOUR ROLE IN YOUR COMPANY

You perform certain tasks on a regular basis in your stand alone company. Consider what these are and then compare how you regularly spend your time with what you think you *should* be doing to run your company most effectively. What significant tasks do you spend time on where you are less productive than you should be?

Next, consider the part of the business where you like to work most and where you think you would be most effective. As you consider your ideal job description, consider your likelihood of being able to do this kind of work in your current company versus doing it working for someone else. Where could your services create the most value and provide you with the highest income and greatest job security?

IDENTIFY YOUR MOST IMPORTANT GOALS

While many owners work very hard every day in their business, relatively few take the time to clearly identify their ownership goals. See if you can answer the following questions about your business.

- What are your two most important financial goals for your business?
- What are your two most important non-financial goals for your business?
- How do you expect to achieve your goals?
- What is your likelihood of success in achieving these goals in your stand alone company?

ASSESS YOUR PERSONAL CIRCUMSTANCES

As you consider your financial goals and your likelihood of achieving them, compare these goals to your personal circumstances. Estimate your current annual income needs. This is the annual after tax cash you need to finance your lifestyle, family needs and obligations, etc. Next, estimate your current and *reliable* future income sources. Comparing your income needs to your income sources, could you stop working now? If not, when do you expect to be able to do this?

Do you expect your private company investment to provide adequate retirement income for you and your family? As you think about this, consider these questions.

- How would your private company generate this future income? For example, would this be your earnings from investing the proceeds of selling your company?
- When could your private company have the value needed to generate this return stream?
- How certain are you of being able to sell out at the necessary price to achieve these returns?
- Could you do better financially as an employee working elsewhere?
- As you consider this, do you believe that the wealth you have built up in your private company is at risk? If so, how can you best protect this wealth?

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THE COMBINATION ALTERNATIVE

If you have thoroughly addressed and answered the questions that this discussion has presented, you should have a reasonable understanding of:

- Trends and conditions in your industry
- Your company's current and likely future ability to compete
- Your current role versus your desired role in business
- Your most important financial and non-financial goals for owning your company

The next step is to take your goals and your assessment of the likelihood of achieving them as a stand alone company, and comparing this to what you could achieve through combining your business with another. The combination could be a sale or a merger, you could end up with or without a future ownership interest, and your future employment options could range from working part time to full time, for a short period or for many years, and perhaps, in a similar role to what you have been doing or something quite different. All of these variables depend on the nature of the combination and the combination partner.

While there would be many details to work out, the most important and simple question is this: Can you better achieve your business and personal goals as a stand alone company or through a combination? More specifically, through a combination, could you achieve:

- A higher cash flow return
- Lower investment risk
- Improved investment liquidity
- More appealing work
- Protection of the current wealth you have created

As you consider these factors, you must also ask if in a combination, you could accept:

- Loss of ownership control
- Working for someone else
- Doing a different job
- End of the "family business"

IS A COMBINATION RIGHT FOR YOU?

Some owners view the sale or merger of their business as a failure because they will have made a change or their company will have lost its former identity. This attitude is simplistic and short sighted.

Progressive owners look at their private company as an investment that should serve their financial, professional and personal needs and goals. With that perspective in mind, they identify these goals and then develop a business strategy, including the possibility of a combination, that gives them their highest likelihood of success.

To make an informed decision, they recognize they must understand their company's performance, risk and value and the role they can best serve in the business, whether it is owned by them or someone else.

WHERE DO I START?

The discussion presented in this newsletter is actually a *process* that owners like you must go through to make wise decisions about the future of your business and your career. You must understand and evaluate your current circumstances and your likelihood of achieving your goals through a continuation as a stand alone company. You then must compare this with your chances of success as an independent company or through a combination. Armed with this information, you are in a position to make a sound decision that best serves your needs and those of your family.

Don't feel frustrated if you are struggling to identify your goals, assess your company's current circumstances or determine your ideal role in the future. These are complex questions and deeply personal issues.

We regularly work with owners throughout all stages in this evaluation process. Our role is to assist owners to:

- Identify your most important financial and non-financial goals
- Assess current circumstances and likelihood of success as a stand alone company
- Understand your company's return, risk and value
- Succeed in the combination process if this is your best alternative

Please call us if you would like an opportunity to explore these issues. Our goal is your successful outcome.

Take your goals and your assessment of the likelihood of achieving them as a stand alone company, and compare this to what you could achieve through combining your business with another.



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The best selling book, *VALUATION FOR M&A: Building Value in Private Companies*, was co-authored by E&A principal, Frank C. Evans and David M. Bishop, and published by John C. Wiley & Sons, Inc. To order your copy, go to www.wiley.com/WileyCDA. For a preview, visit our website at www.evansandassociates.net, click the Publications link and Books.



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